IPO Snapshot

September 06, 2011

Issue Snapshot:

Issue period September 7 – September 12, 2011

Price Band: Rs. 190 – Rs. 210

Issue Size: Rs. 109.16 crs – Rs. 120.65 crs

Issue Size: 57,45,000 equity shares

QIB	upto	50% eq sh
Retail	atleast	35% eq sh
Non Institutional	atleast	15% eq sh

Face Value: Rs 10

Book value: Rs 40.92 (March 31, 2011)

Bid size: 30 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs	10.67 crs
Post issue Equity:	Rs.	16.41 crs

Listing: BSE & NSE

Lead Manager: Almondz Global Securities Ltd.

Registrar to issue: Karvy Computershare Pvt Ltd.

Current Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue % *
Promoters & Promoters Group	100.00	65.00
Public (incl Employees & others)	0.00	35.00
Total	**100.0**	**100.0**

CARE IPO grading: 3/5 indicating above average fundamentals

Highlights of the issue:

PG Electroplast Ltd (PGEL) is an Electronic Manufacturing Services (EMS) provider for Original Equipment Manufacturers (OEMs) of consumer electronic products in India. It manufactures and/or assembles a comprehensive range of consumer electronic components and finished products such as colour television (CTV) sets & components, air conditioners (ACs) sub-assemblies, DVD players, water purifiers and Compact Fluorescent Lamps (CFL) for third parties. As a measure of backward integration, it also does plastic injection moulding and manufacture Printed Circuit Boards (PCB) assemblies for CTVs, DVD players and CFL.

PGEL has four operational manufacturing facilities located at Greater Noida in Uttar Pradesh (Unit I and Unit III), at Roorkee in Uttrakhand (Unit II), and at Ahmednagar in Maharshtra (Unit IV). Combined installed capacity of manufacturing is 16,00,000 pieces p.a. of PCB assemblies for CTVs and DVD players; 16,056 tonnes p.a. for plastic injection moulding; 16,05,000 sets p.a. of CTVs; 30,00,000 pieces p.a. of PCB assemblies for CFL; 30,00,000 pieces p.a. of CFL assemblies; and 3,00,000 pieces of DVD players. Plastic injection moulding capacity is 3,000 tonnes p.a. and 5,675 tonnes p.a. at Units III and IV respectively. With addition of balance plant & machinery at Unit III, this capacity will increase upto 3,600 tonnes p.a. by September 2011. The company also intends to further expand the installed capacities of Unit III and Unit IV, under Phase II, by funds to be raised through this Issue.

The principal raw materials used for the process of plastic injection moulding are High Impact PolyStyrene (HIPS), Acrylonitrile Butadiene Styrene (ABS) and Poly Propylene. The major raw materials used for PCB assembly are bare PCB, Fly Back Transformer (FBT) and Tuner. The major raw materials used in the assembly of CTVs are Colour Picture Tubes (CPT) and cabinets. The company requires metal parts and optical loaders for DVD players and insulations for the assembly of ACs.

The EMS industry is composed of numerous companies that provide a range of manufacturing services for OEMs, from printed circuit board assembly, to design, prototyping, final system assembly, configuration, order fulfilment, repair and aftermarket services. The EMS market consists of contract manufacturers and Original Design Manufacturers (ODMs). Contract manufacturers manufacture products that have been designed by the OEMs; ODMs also design their own products, primarily commodities, and in many instances are in direct competition with the OEMs. PGEL also competes with the other contract manufacturers of electronic products such as MIRC Electronics, Samtel Colour, Dixon Technologies, Kortek Electronics and East India Technologies; as well as other mid-size, regional and smaller EMS providers. It also competes with companies engaged in plastic injection moulding such as Vimal Moulders Private Limited, Bell Polymers Private Limited, Time Technoplast Limited and Precision Pipes and Products Limited.

Objects of Issue:

The objects of the Issue are:

- Prepayment of portion of debt availed for the expansion under Phase I.
- Expansion of manufacturing facility at Unit III, Greater Noida
- Expansion of manufacturing facility at Unit IV, Ahmednagar
- Meeting long term working capital requirements
- General corporate purposes
- Issue expenses

Means of Finance

The fund requirement is proposed to be met through the Issue proceeds.

For the year ended Mar 2011, it reported consolidated sales of Rs. 423.97 cr and a PAT of Rs. 17.90 cr.

Please read important disclosures on the last page

Cost of Project: **Rs. Crs**

Sr. No	Expenditure Items	Total Estimated Cost	Amount deployed as on July 31, 2011
1	Prepayment of Debt	24.10	-
2	Expansion of Unit III – Phase II	13.84	-
3	Expansion of Unit IV – Phase II	37.31	-
4	Funding working capital requirements	15.00	-
5	General corporate purposes	*	-
6	Issue Expenses	*	0.68
	Total	*	*

(Source: RHP)

PGEL's strengths:

- Integrated manufacturing operations
- Design and development capabilities
- Locational advantage
- Continued association with customers
- Quality standards
- Skilled and experienced senior management

PGEL's strategy:

- Expansion of manufacturing facilities
- Diversification of product line
- Constant updation on design and development
- Gradual shift from being an EMS provider for OEMs to an Original Design Manufacturer (ODM)
- Expanding and diversifying customer base

Risks & Concerns:

- PGEL derived a significant portion of its revenue from a few customers (including related party which constituted 54.07% of total revenue during 2010-11 as per the audited unconsolidated financial statements), and a loss of one or more customers or a reduction in their demand for its products and services would adversely affect its business, financial condition and results of operations.

- The company is dependent upon the consumer electronics industry, which produces technological advanced products with short life cycles. Further, consolidation in the electronic industry may adversely affect business by increasing customer buying power or increasing competition.

- PGEL's revenues are significantly dependent on sale of some of its products. Any factor adversely affecting these products will negatively impact its profitability.

- There are no future long-term agreements with customers/related parties for sale of products and the contracts with customers are short term in nature.

- PGEL and its promoters had received summons from the Directorate of Revenue Intelligence in connection with anti-dumping duty on import of picture tubes from Malaysia.

- The company has not appointed any independent agency for appraisal of the proposed expansion project. The cost of project is based on their own estimates and various quotations received by them from different suppliers, which may vary depending upon factors like increase in prices due to which the cost of project may be adversely affected, in turn affecting its financial operations.

- There are restrictive covenants under the loan agreements, which could influence PGEL's ability to expand, in turn affecting its business and results of operations.

- The industry in which PGEL operates is competitive and increased competitive pressure may adversely affect the results of operations.

- The company currently has tax benefits due to its plant at Roorkee. Any loss of tax benefits could affect profitability.

- The company does not have any future agreements with suppliers for the major raw materials required for manufacturing of products and are exposed to risks relating to fluctuation in prices and shortage of raw material. Shortages or price fluctuations of component parts specified by customers could delay product shipment and affect its profitability.

- The company's future success depends primarily on its ability to significantly increase its manufacturing capacity, which exposes it to a number of operating and manufacturing risks and uncertainties.

- The company does not own the trademark "PG" and logo of "PG" and unauthorized parties may infringe upon or misappropriate its intellectual property. This could have a material adverse effect on its business, which in turn adversely affect results of operations.

- PGEL imports a portion of its raw materials used and as a result is subject to foreign currency fluctuations in respect of purchases made in various foreign currencies.

Extract from grading rationale by CARE:

"The grading continues to derive strength from the experience of PGEL's promoters in the consumer electronics industry and established track record of operations of PGEL as demonstrated by long-standing relationships with its clientele. The grading also factors in the consistent growth in revenues, strong operational efficiencies and diverse applications of PGEL's products. The grading is constrained by business risks associated with client concentration, short-term nature of contracts with its clients and low value addition in the products resulting in relatively low profitability margins. The grading is also constrained by highly competitive industry scenario, exposure in foreign exchange fluctuations and project execution risks associated with its expansion plans."

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